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C O N F I D E N T I A L SECTION 01 OF 02 LILONGWE 000854

SIPDIS

STATE FOR AF/S ADRIENNE GALANEK  
STATE FOR EB/IFD/OMA FRANCES CHISHOLM  
STATE FOR EB/IFD/ODF MARLENE BREEN  
TREASURY FOR INTERNATIONAL AFFAIRS / AFRICA LUKAS KOHLER

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TAGS: [EFIN](#) [ECON](#) [EINV](#) [PREL](#) [PGOV](#) [MI](#)

SUBJECT: MALAWI'S FISCAL PERFORMANCE IMPROVING

REF: LILONGWE 839

Classified By: Econoff William R. Taliaferro, for reasons 1.5 b and d

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SUMMARY  
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1. (C) Based on performance in its first 100 days in office, the administration of President Bingu Wa Mutharika appears to be focusing effectively on fiscal discipline. Recent consultations with Ministry of Finance officials and resident staff of the International Monetary Fund (IMF) and World Bank, as well as actions on the part of the GOM, indicate responsible budgeting and performance ahead of IMF targets. Based on this record, Embassy would not object to release of World Bank structural adjustment credit funds. END SUMMARY.

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FISCAL DISCIPLINE, REALISTIC BUDGET  
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2. (U) In his first 100 days, Mutharika has focused strongly on fiscal discipline and good governance. As reported elsewhere (reftel), the new GOM has taken an aggressive public stance on corruption, backed by key personnel changes and increased funding. On the fiscal side, the administration has cut the size of the cabinet, cut government-wide travel budgets, established and enforced monthly spending ceilings on the ministries, and adopted a more disciplined approach to government procurement. A preview of the new budget, which is to be presented to Parliament on September 3, shows realistic planning in place of the donor-pleasing austerity of past budgets (which were routinely displaced by supplementary budgets, then just as routinely overrun).

3. (C) The current budget is for total government spending of MK87 billion (\$813 million), with a deficit of MK8 billion (\$75 million, or 4 percent of GDP). While the budget contains several items of questionable economic criticality (for example, provisions for the GOM to import grain for the commercial market), it appears to include most, though not all, foreseeable expenditures. The budget does include a civil service wage reform package, which has been called out by the international financial institutions as a badly needed structural reform. It does not include a possible Parliamentary pay hike, by-elections costs, nor possible outlays associated with moving government operations from Blantyre to Lilongwe. Finance minister Goodall Gondwe acknowledges these as gaps in the budget, saying the GOM either has yet to decide these issues, or has not yet estimated the possible expenditures. In general, there are very few changes since the IMF's Article IV mission reviewed the draft budget in late July.

4. (C) According to Gondwe, there is some upside implicit in the budget, from a possible break in interest rates, replacement of short-term debt with cheaper long-term debt, and revenues from taxes implicit in the civil service reform package. In conversations with donors, he has said the GOM may come close to balancing the budget by fiscal year end.

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IMPRESSIVE PERFORMANCE  
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5. (C) The in-country IMF staff, which is conducting weekly performance reviews with the GOM and the central bank, has tracked Malawi's performance through 20 August. The results are impressive: the new government has so far stayed within all quantitative targets. The single most important measure, net domestic assets of the central bank (i.e., GOM's domestic debt), is an impressive MK4 billion (\$37.3 million) lower than the target MK6 billion (\$56 million). Even if the GOM goes ahead with a MK2.9 billion (\$27 million) grain buy--the largest likely hit to the budget--it will still be well below the IMF debt ceiling.

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COMMENT  
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16. (C) Up to now, the Mutharika administration appears to be following a responsible fiscal course, both in spending against its interim budget and in creating a realistic budget for the balance of the fiscal year. Given the upcoming seasonal pressure on the kwacha, and the budgetary pressure to stop growing domestic debt, the GOM is justifiably anxious to get budgetary and balance of payment support flowing at the earliest possible moment. Only time will tell the difference between donor-pleasing gestures and a lasting commitment to reform, but it is clear that delaying support will worsen Mutharika's chances of reforming Malawi's economy. Based on the current GOM's performance to date, and on the fragility of the economic situation, Embassy would have no objection to the immediate release of the first tranche of World Bank structural adjustment funds.

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